

STATE OF UTAH INSURANCE DEPARTMENT
REPORT OF FINANCIAL EXAMINATION

of

Delta Care Dental Plan, Inc.

of

Salt Lake City, Utah

as of

December 31, 2005



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October 12, 2006

Honorable D. Kent Michie, Commissioner
State of Utah Insurance Department
State Office Building, Room 3110
Salt Lake City, Utah 84114-6901

Commissioner:

Pursuant to your instructions and in compliance with statutory requirements, an examination, as of December 31, 2005, has been made of the financial condition and business affairs of:

Delta Care Dental Plan, Inc.
Salt Lake City, Utah

hereinafter referred to in this report as the Organization, and the following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered by Examination

The current examination covers the period from January 1, 2003 through December 31, 2005, including any material transactions and/or events occurring subsequent to the examination date noted during the course of the examination.

Examination Procedure Employed

The examination included a general review and analysis of the Organization's operations, the manner in which its business was conducted, and a determination of its financial condition as of December 31, 2005. It was conducted in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook, while also incorporating some top-down, risk-focused examination techniques contemplated in the current draft version on Risk Focused Examinations of the NAIC Financial Condition Examiners Handbook. Tests included the review of corporate records and accounting practices to determine compliance with applicable laws of the state of Utah, insurance rules promulgated by the Utah Insurance Department (Department) and the NAIC Accounting Practices and Procedures Manual.

Two certified public accounting firms were retained to audit the Organization's financial records for the years under examination. Copies of audit reports and requested working papers prepared in connection with the audits were provided for the examiner's review. Information evidencing the assessment of fraud risk and evaluation of

information system controls in the environment in which the Organization functions was relied on for examination purposes.

Internal control and management assessment questionnaires completed in conjunction with the audit of Private Medical-Care, Inc. (the Organization's parent) by the California Department of Managed Health Care were also relied on for examination purposes.

A letter of representation certifying that management has disclosed all significant matters and records was obtained from management and is included in the examination working papers.

Status of Prior Examination Findings

The Department performed the previous examination as of December 31, 2002. Adverse findings noted in the report were adequately addressed by the Organization or are identified as repeat exceptions in this report.

HISTORY

General

The Organization was issued a certificate of authority under the name of Associated Dental Plans, Inc. effective June 5, 1991. The revised articles of incorporation, dated March 26, 1991, authorized the issuance of 100,000 shares of common stock with a par value of \$.10 per share.

During April 1991, surplus notes in the aggregate of \$30,000 were issued to three individuals. The individuals transferred their interest in the notes to Associated Companies, Inc. effective November 1, 1992. The three surplus notes were canceled and one \$30,000 note was issued to Associated Companies Inc. to implement the transfer of interest.

The \$30,000 surplus note issued to Associated Companies, Inc. was retired effective December 31, 1992, in return for 84,000 shares of the Organization's common stock.

Private Medical-Care, Inc. acquired the Organization's outstanding shares of common stock on October 1, 1993. As consideration, Private Medical-Care, Inc. paid \$30,000 in cash, and it agreed to pay specified percentages of gross premium collected through December 31, 1996, from dental plan contracts.

Articles of amendment to the articles of incorporation changing the name of the Organization to Delta Care Dental Plan, Inc. were executed on December 8, 1993. Articles of amendment to the articles of incorporation changing the name of the Organization to Alpha Dental of Utah, Inc. were executed on February 27, 2006.

Capital Stock

As of December 31, 2005, the number of shares of stock authorized by the Organization was 100,000 at a par value of \$.10 each. The number of shares issued and outstanding was 100,000. The balance in the common stock account was \$10,000. The balance in the paid in surplus account was \$119,552. Private Medical-Care, Inc. owned 100% of the outstanding shares.

Dividends to Stockholders

No dividends were paid to the stockholder during the examination period.

Management

The bylaws of the Organization require the number of directors be not less than three or more than nine. The following persons served as directors of the Organization as of December 31, 2005:

<u>Directors</u>	<u>Principal Occupation</u>
Gary D. Radine, Chairman San Francisco, California	President/Chief Executive Officer Delta Dental of California
Michael J. Castro San Francisco, California	Executive Vice-President and Chief Financial Officer Delta Dental of California
Patrick S. Steele, Vice-Chairman San Francisco, California	Executive Vice-President and Chief Information Officer Delta Dental of California
Marilynn G. Belek San Francisco, California	Executive Vice-President and Chief Dental Officer Delta Dental of California
Jeffrey M. Album San Francisco, California	Director of Public Affairs Delta Dental of California
Michael B. Kaufmann Rancho Cordova, California	Senior Vice-President Delta Dental of California

The officers of the Organization as of December 31, 2005, were as follows:

<u>Principal Officer</u>	<u>Office</u>
Anthony S. Barth	President
Belenda Martinez	Vice President
Michael J. Castro	Treasurer
Melissa K. Gee	Secretary
Phillip J. Runnoe	Assistant Treasurer
Marilyn G. Belek, DMD	Chief Dental Officer

No committees of Organization directors functioned during the examination period.

The audit committee of the parent, Private Medical-Care, Inc., performed some functions for its subsidiaries.

Conflict of Interest Procedure

The Organization has an established procedure for disclosure to its board of directors of any material conflicts of interest on the part of its officers, directors or responsible employees on an annual basis. The minutes of the board of directors meetings state that there were no significant conflicts of interest disclosed by the Organization's directors and officers during the examination period.

Corporate Records

The minutes of the meetings of the stockholders and directors adequately approve the Organization's transactions and events during the examination period. The Organization's assistant secretary provided the Department a certification attesting that the prior examination report had been furnished to each director. The certification was dated November 25, 2003.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales through Reinsurance

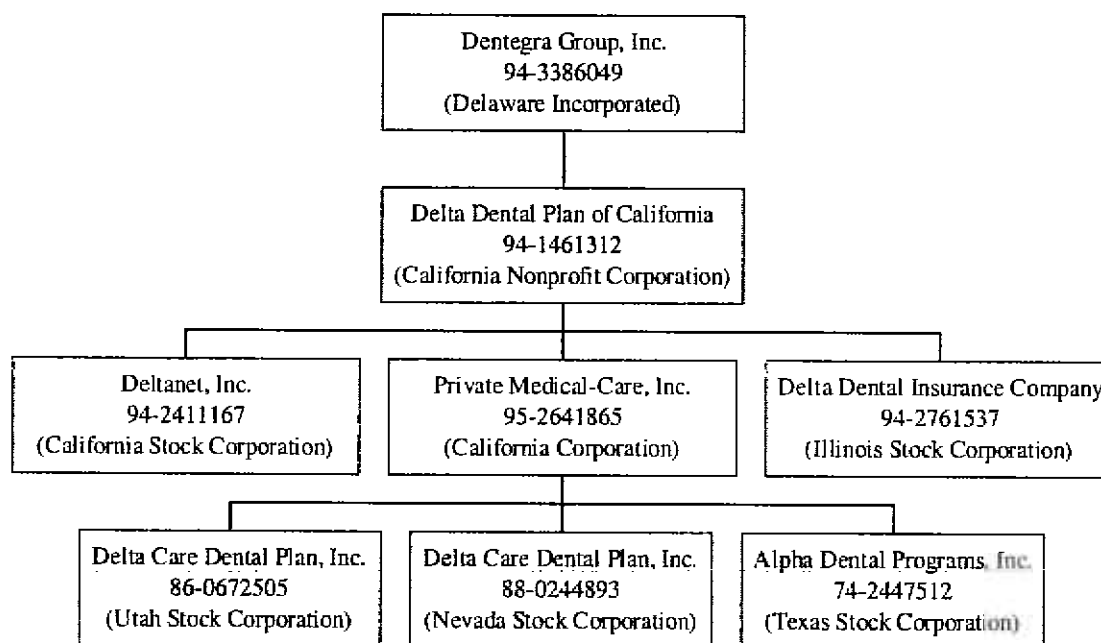
The Organization was not involved in any major corporate event during the period under examination.

Surplus Debentures

There were no debentures issued or retired during the period under review, nor were any outstanding as of the current examination date.

AFFILIATED COMPANIES

The Organization is wholly owned and controlled by Private Medical-Care, Inc. and is a member of the Delta Dental of California Insurance Holding Company System. An organizational chart illustrating the holding system follows:



Transactions with Affiliates

The Organization entered into an agreement with its immediate parent, Private Medical-Care, Inc., whereby the parent provides services necessary for the Organization operations. The agreement was executed effective October 1, 1993. The parent receives a management fee equal to eighteen percent of the Organization's gross earned monthly revenues in compensation for services provided under the agreement. The parent has an agreement with affiliate Delta Dental Insurance Company to provide marketing support services in Utah.

FIDELITY BOND AND OTHER INSURANCE

The minimum fidelity coverage suggested by the NAIC for a company of the Organization's size and premium volume is between \$15,000 and \$25,000. As of the examination date, the Organization was a named insured by endorsement on fidelity bond coverage of \$3,000,000 issued to Private Medical-Care, Inc. The Organization also had insurance protection against professional liability risks.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Organization did not have any employees. Private Medical-Care, Inc., administered the operations of the Organization. Therefore, the Organization did not have pension, stock ownership, or insurance plans.

STATUTORY DEPOSITS

The Organization's statutory deposit requirement was \$12,500 pursuant to U.C.A. § 31A-8-211(3). The examination confirmed the Organization maintained a statutory deposit consisting of a certificate of deposit with a market value of \$29,863 and a par value of \$30,000, which was adequate to cover the required deposit.

INSURANCE PRODUCTS AND RELATED PRACTICES

Policy Forms and Underwriting

As of December 31, 2005, the policies issued by the Organization consisted of prepaid dental plans that provided coverage for specified general procedures. The policy forms contained a schedule of benefits and co-payments as well as limitations of benefits. Components of the Organization premium rates included expected capitation paid to providers, factors for administration, and factors for specialty care.

The prior examination report stated "There were no exceptions noted in comparison of form stock utilized by the Organization during the period under examination to approved forms promulgated by the Utah Department of Insurance laws." During the current examination period, the Organization filed an amended group dental service contract form, amended an evidence of coverage form and amended an individual family dental program contract form with the Department. Other than capitation arrangements with providers, the Organization retained the entire risk under policies written.

Territory and Plan of Operation

The Organization has a certificate of authority authorizing it to operate as a limited health plan in the State of Utah. The Organization does not operate in any other jurisdictions.

The Organization's product is marketed in Utah through employees of an affiliate, Delta Dental Insurance Company. Plan membership decreased from 1,067 at December 31, 2002, to 524 as of December 31, 2005. During the examination period, marketing was not aggressively pursued due to limited provider access. The Organization utilizes the services of two dental care providers, one located in Ogden, Utah and the other in West Valley City, Utah. Capitation was the primary form of provider compensation.

Advertising and Sales Material

During the examination period, marketing was not aggressively pursued due to limited provider access. When the Organization actively markets, it targets groups and does not use preprinted advertising material. Instead, it generates proposals for each group that is interested.

Treatment of Policyholders

The Organization has a written procedure through which covered persons may channel complaints or grievances. The procedure is published in the evidence of coverage information provided the member. There were no complaints filed with the Department against the Organization during the period of examination. Eight grievances were recorded in its grievance log during the examination period and all were closed as of December 31, 2005.

REINSURANCE

The Company did not assume or cede reinsurance during the examination period.

ACCOUNTS AND RECORDS

Most of the functions necessary for the Company's operation were performed by employees of its parent, Private Medical-Care, Inc. or by affiliates under contract with Private Medical-Care, Inc. The Company's records were maintained and processed in either Cerritos, or San Francisco, California. The Company received permission from the Utah Insurance Commissioner to maintain its principal place of business in California in an order dated October 5, 1993.

Considering the Organization's limited operating scope in Utah and the simplicity of its financial statements, its trial balance was not reviewed. The examiner gained an understanding of the nature and contents of account balances reported in its annual statements by utilizing lead sheets generated by the CPA firm retained to audit the Organization's records for the annual period ending December 31, 2004.

FINANCIAL STATEMENTS

The following financial statements were prepared from the Organization's accounting records and the valuations and determination made during the examination:

BALANCE SHEET as of December 31, 2005

STATEMENT OF REVENUE AND EXPENSES for the Year Ended
December 31, 2005

RECONCILIATION OF CAPITAL AND SURPLUS – 2003 through 2005

The accompanying NOTE TO FINANCIAL STATEMENTS are an integral part of the financial statements.

DELTA CARE DENTAL PLAN, INC.
BALANCE SHEET
as of December 31, 2005

ASSETS

	Net Admitted Assets	<u>Notes</u>
Cash and short-term investments	341,107	
Investment income due and accrued	108	
Uncollected premiums and agents' balances	19	
Receivables from parent, subsidiaries and affiliates	1,908	
Total assets	<u>\$ 343,142</u>	

LIABILITIES, SURPLUS, AND OTHER FUNDS

Claims unpaid	\$ 2,137	
Unpaid claims adjustment expenses	474	
Premiums received in advance	12,244	
General expenses due or accrued	5,129	
Amounts due to parent, subsidiaries and affiliates	4,812	
Total liabilities	<u>24,796</u>	
Common capital stock	10,000	
Gross paid in and contributed surplus	119,552	
Unassigned funds (surplus)	188,794	
Total capital and surplus	<u>318,346</u>	(1)
Total liabilities, capital and surplus	<u>\$ 343,142</u>	

DELTA CARE DENTAL PLAN, INC.
STATEMENT OF REVENUE AND EXPENSES
for the Year Ended December 31, 2005

	Total
Net premium income	\$ 44,094
Administrative income	456
Total revenues	<u>44,550</u>
Medical and Hospital:	
Other professional services	19,299
Outside referrals	(41)
Other hospital and medical	
Subtotal	<u>19,258</u>
Less:	
Net reinsurance recoveries	
Total hospital and hospital	<u>19,258</u>
Claims adjustment expenses	
General administrative expenses	16,436
Total underwriting deductions	<u>35,694</u>
Total underwriting gain or (loss)	8,856
Net investment income earned	6,287
Net investment gains or (losses)	6,287
Miscellaneous income or expense	
Net income or (loss) before federal income taxes	15,143
Federal and foreign income taxes incurred	1,550
Net income (loss)	<u>\$ 13,593</u>

DELTA CARE DENTAL PLAN, INC.
RECONCILIATION OF CAPITAL AND SURPLUS
2003 through 2005

	<u>2003</u>	<u>2004</u>	<u>Per Exam 2005</u>	<u>Notes</u>
Capital and surplus prior reporting year	\$ 288,105	\$ 295,975	\$ 304,753	
Increase (decrease in common stock)				
Increase (decrease) in contributed capital				
Net income or (loss)	7,870	8,778	13,593	
Change in nonadmitted assets				
Surplus adjustments: Paid in				
Rounding				
Net change in capital and surplus	<u>7,870</u>	<u>8,778</u>	<u>13,593</u>	
Capital and surplus end of reporting year	<u>\$ 295,975</u>	<u>\$ 304,753</u>	<u>\$ 318,346</u>	(1)

NOTE TO FINANCIAL STATEMENT

(1) Capital and surplus

\$318,346

As of December 31, 2005, the Organization's minimum capital requirement was \$10,000 pursuant to U.C.A. § 31A-8-209(2)(b). Its total adjusted capital was \$318,346 pursuant to U.C.A. § 31A-17, Part 6. Its authorized control level risk based capital requirement was \$25,012.

SUMMARY OF EXAMINATION FINDINGS

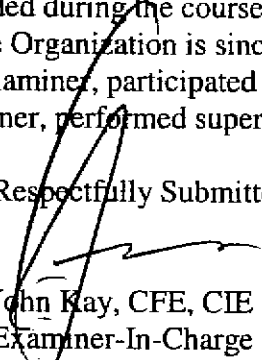
Items of significance commented on in this report are summarized below:

1. During the examination period, marketing was not aggressively pursued due to limited access to providers. Organization membership decreased from 1,067 at December 31, 2002, to 524 as of December 31, 2005.
2. As of December 31, 2005, the Organization's minimum capital requirement was \$10,000 pursuant to U.C.A. § 31A-8-209(2)(b). Its total adjusted capital was \$318,346 pursuant to U.C.A. § 31A-17 Part 6. Its authorized control level risk based capital requirement was \$25,012.

CONCLUSION

The assistance and cooperation extended during the course of the examination by officers, employees and representatives of the Organization is sincerely appreciated. Colette M. Reddoor, CFE, Assistant Chief Examiner, participated in the examination as the supervisor. Jake Garn, CPA, Chief Examiner, performed supervisory oversight.

Respectfully Submitted,


John Kay, CFE, CIE
Examiner-In-Charge
Utah Insurance Department